C.I.M. CASE STUDY: WCI – WORLD CLASS INTERNATIONAL

Analysis – prepared by David Kilburn

As a Marketing Consultant to the Board of WCI you will be expected to advise the board of Strategic Marketing decisions, both qualitative and quantitative.
The Board will want to know answers to the following questions:
How much will it cost?
What is the expected ROI?
How much profit will the strategy drive?
What marketing strategy should be adopted?

WCI – merger of two companies –IT Services.
The Sector is fragmented and complicated but impressive growth.
International – 3 locations in the world (U.K./U.S.A/Hungary)
WCI wants to become a key global player.
New marketing opportunities offered by merger – technological shifts in e-commerce.

e-definitions
E-commerce generally refers to paid-for transactions, whether B2C or B2B, but others include all communications between customers and business. E-business is broader, including e-commerce, and is a means to optimise all business processes that are part of the internal and external value chain. E-marketing is best considered as how e-tools such as websites, CRM systems and databases can be used to get closer to customers –to be able to identify, anticipate and satisfy their needs efficiently and effectively, thereby driving profitability.

Marketing plan – develop European market/global market. (Possible question)

Patrick Pearson (you) experienced in B2B marketing.
1986 JIT Technology (Paul Collins) Lean manufacturing techniques £50,000 T/O
1989 Alistair Duncan joined as 50% equity partner – formed WCI Consulting broadened to include manufacturing and service –based businesses – process/people/methodology

1989 £1 million
1995 £2.5 million
1998 – David Cheesman became Director and equity holder.
1995 –1999 – revenues grow from 2.5m-11 million.

Technology led-----------------sales led----------------marketing led 2002

Sales led – focused on 3 market areas –(life sciences, Technology, Media and Telecoms (TMT) and Finance.
70% repeat business, which is good.
Set up in Seattle to service Microsoft (WCI –USA) Relocated to Atlanta, Georgia to service pharmaceutical and medical device clients.
1997 – opened office in Budapest, Hungary, to service Eastern European countries.
1998 – Hire only the best – retained through high remuneration on basis of results and open

family-style culture.
'People that make a difference' –key marketing message.

WCI defines I.T. strategies and solutions for clients. Subcontracted out. Giving business away. Changes in business – supply chain mgt, CRM, customer value mgt (C.V.M). Driven by emerging internet-based technologies. Company needed to become stronger in e-business arena or it would be pushed out of the market. So in 2000, 2GL-computing services merged with WCI as wholly owned subsidiary of WCI holdings Ltd. But operated as WCI Technologies Ltd. Merger meant that WCI could now become 'a full business solutions design and implementation provider', offering customer services, systems design and integration, CVM and post implementation managed business services.

WCI Technology (formerly 2GL computing Ltd.) co-formed in 1988. (Simon Derrick and Carol Evans) in Southampton as an accounting and networking solutions house for SME companies, based on IBM and Compaq platforms. Branded PC hardware, software and peripherals and consultancy. Expanded sales force in 90's. Became dominant in the education market in South of England- curriculum development-Classlink-Intellectual property rights sold to Viglen PLC –award-winning software.
1991 –2GL Health care formed. Staff from former Health Authorities provided I.T. infrastructure and tailored software solutions. In 2000,Company won a multimillion-pound NHS Direct infrastructure and managed services contract as a partner of AXA Assistance. In 1992, company strengthened its relationship with Microsoft, Intel and Compaq thereby achieving national credibility. Accounting solutions unit was sold off in 1996 and a training division was established.

Rapid growth in '97 and '98. Andrew Gardner –UK M.D. of Seimens computer services, became M.D. of 2GL. 1999 – Dave Seddon joined as Deputy M.D. Simon Derrick – Chairman , Carol Evans – Head of Consulting. 2000 – acquired Counterpoint Consulting (Bristol) to strengthen its systems integration consulting arm and e-business application development.

July 2000 – merger with WCI completed. To grow and develop capabilities in information systems (as a result of growth of internet).

Appendix 1

Pharmaceuticals/Life Sciences/Health Care
Corporate/Financial Services/TMT
Consumer products/manufacturing
Business transformation/systems architecture and integration/infrastructure and creative solutions/managed services and BPO (business process outsourcing)

Pie Chart 1: Sectors by Percentage of Revenue

2000 Sales Estimates - £37.3 million (US $56 million).

- Number of Employees: 270 employees – yet only 6 involved in Marketing! 36 involved in Sales, so sales-led, and not market-led!

Pie Chart 2: Geographic Markets

Pie Chart 3: Percentage of sales WCI Consulting facilities
Need to improve global presence!

Pie Chart 4: Percentage of sales WCI Technology facilities

Operations Structure – diagram

Bruce Ramsay is director, business development but also director – consulting services,
David Cheesman – WCI consulting direct and Director of resource development

Technology board structure
No marketing positions on board but 2 sales (Board members) – Health sales and corporate sales.

Marketing structure
Only 6 marketing co-ordinators - not a lot !
Are there any gaps uncovered?

Industry sectors

IT firms have the ability to provide management consulting and also the ability to implement these strategies.
Key players –Accounting/Marketing/HRM backgrounds. Big Five – Ernst & Young, KMPG, Price Waterhouse Coopers, Anderson, Deloitte.
Possible conflicts of interest (cf. Enron) have meant that they are forming joint ventures with Cisco and Microsoft or selling off their consultancy divisions.
This is an opportunity for WCI to buy out a consultancy arm or form a joint venture with one of the big five. This is ambitious but WCI would become a major global player overnight. I.T. represents 70% of all consulting. Growth industry so outlook looks very good.

I.T.SERVICES INDUSTRY

Turbulent period as dot com companies soared and bombed. B2B sector looks very good.

Warburg e-index

Germany looks like a good market. Why are WCI not targeting this lucrative market?

The e-business consulting market is expected to grow from US$20 billion to US$80 billion by 2003- fantastic growth. WCI need to capture a substantial share of this growing market. WCI need to form a J.V. to pick up business or market itself much more aggressively.
WCI – one stop shop for potential clients, from business strategy to network management. This ensures that companies can optimise the internet as a business tool.
WCI –is unique therefore, its USP is managed services. Its main competitors are A.T.Kearney, CTP, CGEY and IBM (Druid possibly).
WCI’s turnover is £29 million, number of employees is in excess of 300.

Profit margins are 35-50% for strategic planning and 10-20% for hardware installation and operation
The demand for basic IT services is far greater but is less profitable.
WCI are in tier 3.
Figure 8 represents WCI’s key offerings.
‘Building better businesses’ on the web. Integrated business propositions are designed to exploit the joint competencies within the group.

E-business strategy

Opportunity to assist companies to look at new channels to market by leveraging new technology. Market growth in this area is high yet WCI has a low market share. (Opportunity)

Selling systems

E-CRM allows direct contact with customers and an understanding of their needs.
WCI has low market share in a high growth area. (Opportunity)

Internal Systems

WCI – good market share in low growth area. Strategy – defend share but check profitability and use of resources, maybe harvest and later divest if not suited to overall future strategic imperatives of the organisation.

Purchasing

WCI – low market share in high growth area – (opportunity)
Eprocurement opportunity (example from Schlumberger /Office Depot) Chaffey -page 77.(See attached sheets)

Lean compliance

WCI consulting – 33% of its revenue comes from the Life Sciences sector (pharmaceutical and medical device companies).WCI has a unique niche in the areas of drug safety, coding and regulatory processes within the top 20 companies in the pharmaceutical industry. (Global opportunity here)
High growth area and WCI market share is also good but they need to increase it and defend position from predators.
Bioinformatics- takes a long time for drugs to come to market and 80% fail clinical trials so sophisticated information systems are needed. (opportunity).

Esoftware

High growth area, WCI’s share is low (opportunity)

Infrastructure

Low growth area, WCI has a good share BUT how profitable is it, especially when you have to give 24 hour/7 day support. What are the costs?

Managed services

High growth area. WCI has a reasonable slice of this market BUT need a greater slice so they have to market themselves more. (opportunity).

Business process outsourcing. BPO

High growth area, WCI’s share is also growing rapidly. Strategy – continue to harvest.

INDUSTRY TRENDS
Companies have to reinvent themselves.
The marketing environment is ever-changing.
Have to be flexible, pro-active, forward-thinking.

Growth in outsourcing IT provision.
Companies looking for added value.
Globalisation and the advent of the Euro equals powerful forces in the world economy.
Impact of IT services on marketing measures.
Market intelligence is increasingly vital.
Mobile technology is growing in importance – has to be integrated into intelligence-gathering systems.
Knowledge management is a growth area.
Long term competitive advantage is better than short-term ROI.
Link areas such as marketing, planning, research, E-business and customer relationship.
Make sound business decisions based on knowledge.
Figure 10 is a key model.
Digital loyalty networks – e-differentiated supply chain and customer management.
Manufacturers who successfully link supply chain management with CRM to create loyalty networks can generate significant competitor advantage.
Figure 11 – businesses can build e-collaboration – creating value for every customer and segment.(See attached sheets)
Figures 12/13 – Huge growth area – mobile commerce.
Great opportunity for WCI – how can they exploit it?

Marketing Issues

Four industry sectors:

A) Industrial – focus is now on global manufacturers rather than smaller companies (international strategy)
B) FMCG – not fully exploited by WCI (opportunity). Retailers (branded food/drink market). Big four supermarkets – manufacturers (Proctor & Gamble, Nestle, Kelloggs, Heinz, etc).
C) TMT – important revenue earner for WCI (keep it up and harvest/develop it further on a global scale).
D) Financial services – CRM. WCI only has a small number of clients in this area – opportunity to do business with the big players.

Table 1 and Table 2: WCI earns more revenues from outsourcing – contracts are long term and they bring in regular income. Strategic outsourcing impacts positively on share value. Generally, companies show a 5.3% premium in share value compared to the sector average.

Price

Complex – linked to perception of the brand. However, client satisfaction and loyalty can and do play a major role in customer decision making. Outsourcing contracts – long term and are priced accordingly – bring in regular revenue for several years (cash cows).

Communications

£600,000+ is spent on advertising and brand building – media, website development, external events, corporate events, sponsorship, direct mail, sales and support, magazine – Management in Action.
The company is reviewing the most effective way of spending this budget (Question?).

Company Mission

To help our clients become “world class” through excellence in process design, web technology and managed services (is this good enough? – probably need to change it).
Brand personality – should be innovative and confident about WCI philosophy. The company wants to position itself as being provocative and challenging compared to competitors in the IT services sector. The brand has to be able to demonstrate the quality of the staff and the working environment.

Marketing and HR

Good package for employees. Marketing is a bit piece-meal.
If staff work mainly on client sites and rarely visit WCI offices, is there a danger of “strategic drift” and poor communication.

Summary

Sales-driven strategy so far. WCI needs to differentiate itself from the plethora of similar competitors. Has several niche markets – pharmaceuticals/health. IT services – challenges ahead – mobile technologies. Company needs to continue growing and to begin to challenge some of the bigger players within the sector by being innovative and subtly shifting the company focus from selling to strategic marketing with its new service offerings.

Issues

September 11th and its aftermath means that less CEO's are travelling and there is more caution in business investment. Threat or opportunity? A positive organisation will look at the situation and come up with a creative solution. For example, if less CEO's are travelling by air their web based tools become a strong alternative to air travel and face to face meetings. WCI can capitalise on this latent fear.

Amazon website is a good example of CRM. You always receive a personalised message when you revisit the site and a reminder of the purchases you bought previously. Amazon build up a personal portfolio based on buyer behaviour. When your transaction is complete, a list of other enticing products of a similar vein is flashed on screen stimulating possible add on sales.B2B is different but the principles remain the same. How do you get closer to your customers and manage them effectively? –CRM.
'The business case for digital loyalty networks is a sound one ' (page 39). It locks in customers for life because it will prove very difficult for competitors to distract customers. You have to integrate and manage your relationship with customers so well that they will not want to be able to move easily to another supplier. This builds customer lifetime value and reduces the threat of competition from predators.
Mobile e.g.Volkswagen – mobile data solution – located newly finished cars in giant showroom to show customers in Germany. –paid for itself within a year.
RAC uses mobile data to reduce the time it takes to send assessments of second hand cars to potential customers.

The Pharmaceutical Industry

33% of WCI Consulting's revenue comes from the life sciences sector (including medical device companies and pharmaceutical companies). Events in the pharmaceutical industry will have a material impact on the business of WCI. WCI has a unique niche in the area of drug safety, coding and regulatory processes within the top 20 companies in the pharmaceutical industry. WCI is a preferred partner with a USA software company – products that provide a complete solution for internet-linked processes between regulatory authorities, pharmaceutical companies and medical establishments – this provides a significant growth opportunity.

Pharmaceutical Industry Growth (page 43)

Total sales expected to grow year on year.
2002 - $152 billion
2005 - $202 billion (33% growth in 3 years)

R & D

The FDA in the USA in 2002 plans to implement an electronic submission and review system to approve new drugs. This is a fantastic opportunity for WCI to win this contract. Projected increased spend on medical research ($24 billion) by 2002.

Drug and medical industry research & development divisions comprise 11.9% of total industry sales – lucrative market. R&D therefore contributes directly to overall industry sales at a much higher percentage than any other US industry sectors. The table on page 44 shows heavy R&D inside the USA, but much less in other countries. There is scope for WCI to broaden this by linking up with US companies (opportunity).

Merger Activity

The global pharmaceutical industry is characterised by large mergers – eg Glaxo Wellcome and Smith Kline Beecham – GlaxoSmithkline - now largest in world. Great opportunity for WCI, who already have a dedicated group with post-merger experience and methodology, and anticipates significant consulting assignments over the next 5 years in the post-merger pharmaceutical industry. The UK computer services market table shows growth from 20,430 million in 2001 to 29,184 million showing a year on year growth. Page 46 – forecast segmentation of computer services market. There is an expected growth in operational services and professional services. Slight growth in systems/solutions. Decline in maintenance/support (between 34 – 41% outsourced).
2001 – 2005: forecast growth looks very healthy but less so for maintenance and systems development.

IT Services Market Projections

The worldwide IT services market will grow from $660.8 billion in 2000 to $1.344 trillion in 2005.

The worldwide IT market in 2000 is $1.6276 trillion and in 2004 the total value is predicted to be $2.55 trillion.

Europe/Middle East/Africa (EMEA) for IT services was $153.2 billion in 2000 growing to $257.2 billion in 2005.

European markets - IT spending was $412 billion on 2001 and in 2002 $436.72 billion (plus 6.6%).

UK plc – BPO/ICT FTSE100 total market value = £22.9 billion; FTSE 100 IT outsource services total market value = £17.08 billion (74.58%); FTSE 100 business process outsourcing services total market value = £5.8 billion (25.42%).

Appendix 3

Management In Action magazine – page 53 – legacy software refers to existing software within a company which still has to be maintained and integrated with new software. Very typical of large organisations such as banking institutions.
"One stop shop" for consulting and technology needs. NHS article – self-explanatory.
Credit Suisse – GEM (global expense management) – control of costs using IT was not working so WCI helped to resolve the problem. WCI found that 70% of expense was non-value added and therefore rectified the situation.

Appendix 4

WCI Consulting

	1997 (£000's)	1998 (£000's)	1999 (£000,s)	Year on year variance (97 – 98)	Year on year variance (98 – 99)
Revenue UK	6184	6801	6431	+9.97%	-5.44%
Revenue Hungary	0	421	1670	n/a	+296.67%
Revenue USA	778	2400	2788	+208.48%	+16.16%

Notes:
Total gross profit in 1997 was £2.812 million
1998 was £3.798 million
1999 was £3.817 million

WCI is losing ground in the UK market (needs attention). Hungary is doing well from a standing start. USA – good 1998 but in 1999 not growing that significantly. The profit increase is worrying. In 1998 there was a 35% increase in profitability and in 1999 it was only 0.5%. Losing ground!! What about other global markets. It is a global business!!

WCI Technology

	1997	1998	1999	Year on	Year on

	(£000's)	(£000's)	(£000,s)	year variance (97 – 98)	year variance (98 – 99)
Turnover	7479	16297	18888	+117.9%	+15.89%
Gross profit	2051	4001	3022	+95%	-24.46%

Notes**:**
Although the turnover increased by 15.89% in 1999, the profits dropped by –24.46% - question: is the pricing strategy correct? Control of costs?

WCI Consulting

	1997 (£000's)	1998 (£000's)	1999 (£000,s)	Year on year variance (97 – 98)	Year on year variance (98 – 99)
Pre-Tax Income (bottom line)	765	1082	844	+41.43%	-21.99%

Notes**:**
There is an alarming drop in profitability. Causes – control of costs/pricing strategy/exceptional one-off costs??

WCI Technology

	1997 (£000's)	1998 (£000's)	1999 (£000,s)	Year on year variance (97 – 98)	Year on year variance (98 – 99)
Pre-Tax Income (bottom line)	213	638	576	+199.53%	-9.71%

Notes**:**
1998 was a very healthy year for profitability
1999, despite increased turnover (15.89%), profitability levels fell to - 9.71%. This is a worrying trend. Control of costs? Pricing strategy not right?

Appendix 5

WCI – £29,788 million sales
Employees = 300+
Main competitors – IBM, CGEY, Cambridge Technology and A T Kearney. Very large companies so WCI needs to re-focus.
In competition with the major players.

Strategies:
1. Do nothing
2. Sell out to large company

3. Joint venture/strategic alliance with larger company
4. Become a niche player – do not compete head-on
5. Market themselves vigorously so they become marketing-led and not sales-led

WCI Clients List

Not deriving enough business from FMCG sector, eg Waitrose – only £4,800. This is a pittance. Why did they not link up with Waitrose for "Waitrose Deliver" – an internet based shopping scheme, or "Waitrose At Work"? This contract was awarded to Ocado.

Tesco, Sainsbury, Asda, Somerfield, Iceland, Budgens, M&S (Food), Aldi, and Lidl – all need IT software solutions, etc.

WCI needs more marketing orientation – not enough big contracts in all sectors. They seem to be a localised company who are not ambitious enough in the UK, let alone globally. There is a hell of a lot of scope using the internet – a global shop window!

Financial highlights

Gearing

Long term debt = Bank loans + H.P. = 180 = 7.7%
equity 2329

This looks low i.e. company has plenty of borrowing capacity. Ideally would like to know what value of equity rather than the book value.
Cannot calculate interest cover (operating profit /interest paid) from the information given.

Liquidity

Current ratio = current assets : current liabilities = 1.07 :1
Acid test = CA (-stock) : CL = 0.97 1

Low which poses potential cash-flow problems depending on how quickly the company can convert sales into cash. Could be a demonstration of efficiency i.e. has not got too much capital tied up in working capital items (particularly cash, debtors, stock) But cash position is very low.

Efficiency

Using 1999 income statement (total for company) with 2000 balance sheet.

Debtor collection = closing debtors = 8915 = 109.3 days
daily sales (assume all on credit) 29,778/ 365
This is far too long. They need to improve credit control.

Stockholding period = Closing stock =990 = 15.75 days
Ave.daily purchases (use cost of sales) 62.85

Creditor payment = Closing creditors = 3845 = 61.1 days
Ave.daily purchases (use cost of sales) 62.85

Cash cycle	= stockholding period	+ debtor collection	– creditor payment		
	= 15.75	+	109.3	-	61.1
	= 64 days				

This represents the number of days between paying out to creditors (61.1 days and receiving money from debtors (15.75 +109.3 = 125.05)

The shorter the better, but reducing it by altering any of these 3 is difficult. e.g. reducing stockholding increases the risk of a stock out . Reducing debtor collection may frighten off customers but WCI should try to improve credit control.
Increasing creditor payment may jeapordise future supplies.
The 64 days cash cycle has to be financed by other sources. Credit control to get debtors in more quickly should be looked at.

Asset turnover = Turnover = 29,778 = £2.44 = annual sales per £1 assets
Total assets 12,181

Profitability

EBIT = 571 = 4.7% profit per £1 assets
Total Assets 12,181

	‘97	‘98	‘99	
GP margin = GP =	2051	4,001	3,022	
sales	7479	16297	18888	
=	27.4%	24.55%	16%	Huge fall for Technology

GP margin = GP = 2812 3798 3817
sales 6962 9622 10890

GP margin =	GP / sales =	2812 / 6962	3798 / 9622	3817 / 10890
	=	40.39%	39.47%	35 %

WCI Consulting
declining profitability

Note

From the financial information provided, it is not possible to accurately value the shares in the company.

Value of a share = EPS (profit / no.of shares) x P/E ratio

Possible questions

1. **Prepare a Communications Plan, which will increase sales and profitability in the European market.**

2. Devise a Marketing Plan to make WCI a truly global player.

3. What branding and positioning strategy should WCI adopt to improve sales and profitability?

4. Prepare a strategic market entry plan to capture a slice of the growing I.T. services market in the Middle East and Africa.

5. How can WCI capitalise on the predicted growth in m-commerce in Western Europe?

6. What e-business strategy should WCI adopt to maximise profitability?

7. Prepare a strategic marketing plan to capture part of the lucrative market in Germany.

8. To become a truly global player, WCI need to form a strategic alliance with a major player. Prepare an outline strategic review to make this happen.

9. How can WCI move away from a sales led to a marketing led orientation without losing sales and profitability?

10. How can WCI take advantage of their technical knowledge to create niche strategies for the future?

David Kilburn